

Statement of U.S. Representative Ron Klein
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**Before the House Committee on Financial Services, Subcommittee on
Housing and Community Opportunity**

Hearing on “Perspectives on Natural Disaster Insurance”

March 27, 2007

Good afternoon Chairwoman Waters and Ranking Member Biggert. I sincerely appreciate the opportunity to discuss natural disaster insurance before the Subcommittee. I hope that our presence at this hearing emphasizes the seriousness of this problem and demonstrates our commitment to move forward in identifying a national solution.

The 2005 hurricanes illustrated all too well how quickly a natural disaster can change the lives of millions. The most devastating of the storms, which struck from Louisiana to the Florida panhandle, also dealt unprecedented losses to residential, commercial, and industrial property. Hurricane Katrina, in particular, opened many eyes to the problem of natural disaster financing, and showed that it is up to us to make sure that we are adequately prepared to handle a disaster of catastrophic proportions, because it is simply a matter of time before the next one hits.

As such, we must think ahead proactively to develop a plan to address natural disasters before the next one hits, rather than simply continuing to operate without a catastrophe financing plan at the national level. We have seen the consequences of large-scale disasters, and the physical and economic destruction that accompany them, and must responsibly prepare to act.

We are all familiar with the sights and stories of Hurricane Katrina, but we must also recognize that families across the United States face a variety of other threats that could rise to the level of catastrophic proportions and hit without warning. Many residents in California certainly remember the devastation caused by the Northridge Earthquake, which killed 60 people, injured 3,800, and caused \$43 billion in property damage. Even with California’s history of seismic activity, only about 14 percent of Californians currently have earthquake policies, which is a real eye-opening statistic. It only takes one day of devastation from an earthquake, fire, volcano, flood, or hurricane to make us wish that we had thought ahead to establish a national system to deal with catastrophe financing.

The economic impact accompanying natural disasters resonates throughout the entire nation. Total economic damages from the 2005 hurricanes will likely exceed \$200 billion, with the federal government responsible for paying out in excess of \$109 billion for disaster relief. This money, which we all agree was entirely necessary to spend, comes from taxpayers across the country, not simply those from the affected regions.

Those who say that natural disasters are a regional problem limited to coastal states are dead wrong. Until we are able to develop a national financing mechanism to provide certainty for large-scale natural catastrophes, each taxpayer will continue to be responsible following a catastrophic event.

On the local level, more and more families across the country are facing the very real prospect of being dropped by their property insurance company. Hundreds of thousands of homeowners in my home state alone have been dropped or have been slated for non-renewal by their insurance companies. Those who remain insured are confronted with crippling premiums, which in some cases is forcing homeowners to make tough decisions about whether to go without property insurance.

Take the case of one of my constituents. We have an individual back home in my district who was paying \$3,100 a year for homeowners' insurance in 2005. She is now coping with a premium that reached \$16,000 this year. That is a \$12,900 increase over two years. How can we possibly expect families to make these payments each year to protect their homes?

Skyrocketing insurance premiums are posing a real threat to home ownership, particularly among our most vulnerable populations, such as the elderly. Older Americans, many of whom are on fixed incomes and may even own their homes outright, are not able to plan for the increasingly volatile rate increases, and in many cases find themselves with no place to turn for help. We must work together to establish a system to make sure that property insurance is both available and affordable for hard-working families and those most in need.

The property insurance crisis is not isolated to Florida, either. Last year, property insurers indicated that they plan to stop offering new coverage in Maryland and Virginia's coastal markets. Property insurers have also stopped writing new policies for residents in Delaware, New Jersey, and Connecticut, no matter where in the state the property is located.

Furthermore, tens of thousands of homeowners in New York, North Carolina, South Carolina, Alabama, and Texas have already been dropped, as well. It is unacceptable for property owners not to be able to get reliable coverage in these markets. And it is precisely this reason that a national solution is necessary.

Over the past couple of weeks, I have been working closely with Congressman Mahoney, Congresswoman Brown-Waite, and Congresswoman Maloney to move forward on this issue. We have been working with Chairman Frank, who also believes that a national solution is necessary, and are now discussing the issue with consumer groups and other interested parties. Furthermore, we are assembling a bipartisan, multi-regional group of Congressmen, who collectively recognize the problem of large-scale natural catastrophes and have pledged to help work towards a national solution.

We are looking to take a well-thought out, deliberative approach in examining the current insurance paradigm. In doing so, we are particularly interested in exploring the options surrounding a national catastrophe program. Such a program would provide a layer-based national financing mechanism that would allow the private sector to take the lead on property insurance, while the federal government would implement a system to cover a portion of losses when a large-scale natural catastrophe reached a significant level. Cost-savings realized under any proposal that we offer would be passed on directly to the retail level, ensuring that consumers are the primary beneficiaries of the legislation.

We will also be working to develop incentives for mitigation standards. Reducing property-owners' exposure to natural disasters will be an important part of our plan. We are looking to encourage responsible development through building code standards and other means.

The time for action is now. With the federal government currently in the position of being the de facto insurer of last resort, we hope to establish a more efficient system to foster predictable coverage at reasonable rates.

Again, I would like to thank the Subcommittee for holding a hearing on this very important issue and I look forward to working with you, Chairwoman Waters and Ranking Member Biggert, to develop a national solution.